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Viewing cable 06SOFIA310, BULGARIAN ENERGY MINISTER'S MEETINGS IN MOSCOW

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Reference ID	Created	Released	Classification	Origin
06SOFIA310	2006-03-02 10:27	2011-08-30 01:44	CONFIDENTIAL	Embassy Sofia

Appears in these articles:

<http://www.bivol.bg/wlbelene.html>

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VZCZCXRO4869
PP RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
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ZNY CCCCC ZZH
P 021027Z MAR 06
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TO RUEHC/SECSTATE WASHDC PRIORITY 1529
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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 000310

SIPDIS

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E.O. 12958: DECL: 02/27/2016

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SUBJECT: BULGARIAN ENERGY MINISTER'S MEETINGS IN MOSCOW

REF: A) 05 SOFIA 2063 B) SOFIA 202 C) SOFIA 190

Classified By: Amb. John Beyrle for reasons 1.4 (b) & (d)

¶11. (C) SUMMARY: Economy and Energy Minister Rumen Ovcharov called his January 31 - February 1 meetings with Russian energy officials constructive and productive, in contrast to the bad taste left by Gazprom's heavy-handed approach to PM Stanishev in Sofia last December (Ref A.) Bulgaria and Russia have agreed to finalize plans with Greece for the Burgas-Alexandroupolis oil pipeline, slated to be announced in mid-March in Athens. They also agreed to further postpone renegotiation of the Gazprom contract, while exploring expansion of the capacity and reach of the existing gas pipeline. Regarding the proposed Belene nuclear power plant, Ovcharov indicated the Russian Atomstroyexport offer was clearly superior to the Skoda one, but said details of the contractor's participation were not yet settled. END SUMMARY

GAS

¶12. (C) Ovcharov requested a meeting with Ambassador Beyrle on February 24 to discuss his trip to Moscow, a marathon of meetings with top Russian oil, gas and nuclear officials including Gazprom's Miller and Medvedev, Rosatom and Atomstroyexport, UES/Chubays, and a two-hour session with his counterpart Viktor Khrishenko. According to Ovcharov, the meeting with Miller and Medvedev was "totally different" in tone from Medvedev's finger-wagging performance with PM Stanishev in Sofia. Both sides agreed that there would be no changes to the current Gazprom delivery contract before the end of this year. Gazprom is looking now to determine its long-term partnerships, and is interested in an agreement that would offset a reduction of the currently high transit fee with an increased flow of gas through Bulgaria to Serbia, Greece, and possibly Italy. The current structure has headroom for an increased gas flow of 20-30 percent, Ovcharov said. The Russians continue to raise the threat of sending their gas through other pipelines in Greece and Turkey (Ref B), both as leverage against Bulgaria and in order to avoid reliance on the route through Ukraine.

¶13. (C) In addition, Ovcharov was told that Russia wants to invest in/own local thermo-electric heating plants, as well as the current gas pipeline. The latter cannot be addressed until the end of this year because Bulgaria is complying with an EU directive to liberalize the sector by carving up parts of the current Bulgargaz empire, which includes the pipeline. Ovcharov said the Russians are looking to obtain these assets at preferred prices, but the issue has not yet been seriously discussed. He characterized the topic as "an open question."

BELENE NUCLEAR PLANT

¶14. (C) At Rosatom and Atomstroyexport, Ovcharov's hosts said that they want a majority stake in the company that will own Belene NPP (Ref C.) The GOB is looking to keep a majority for itself, but needs to attract a strategic partner, which could well be Russian. Commenting on the February 1 tender to develop the two blocks at Belene, Ovcharov told the Ambassador "in confidence" that the Russian Atomstroyexport proposal is superior to the Czech Skoda proposal on technical grounds. The Russian proposal is to build a modern, double-containment facility, similar to projects being built in China; the Skoda proposal, according to Ovcharov, is based on 30 year-old technology with only single containment. In addition, Russia is proposing both to provide the nuclear fuel for the plant and to take back spent fuel for long term storage in Russia. The Czechs are only offering to provide a terminal, said Ovcharov, not the fuel.

¶15. (C) In spite of the deficiencies of the Czech offer and the fact that Gazprom Bank owns a majority in both Atomstroyexport and Skoda, Ovcharov told us his February 15-16 trip to the Czech Republic had confirmed that theirs was a real offer -- not a stalking horse for the

Atomstroyexport proposal. Nonetheless, he said, because of the containment the Skoda bid does not even meet the technical specs of the Belene tender.

BURGAS-ALEXANDROPOULIS OIL PIPELINE

¶6. (C) Ovcharov told us the Russians will decide soon whether they will move forward with plans for the B-A pipeline. This is clearly a Russian state project, with participation of

SOFIA 00000310 002 OF 002

Sibneft, TNK-BP and Rosneft very likely, although Chevron's later participation is also envisioned. Ovcharov agreed that the viability of B-A is linked to increased output of CPC, which he thought Russia was looking at more seriously.

¶7. (C) Maintaining control of the Universal Terminal Burgas (UTB) is still the major outstanding issue for the Bulgarians in the B-A negotiations. The GOB wants only one terminal for all potential oil pipelines to protect Bulgaria's Black Sea tourist industry, and to control the shipment of the oil through Bulgarian territory. The Russians now want a majority stake and control over the pipeline, said Ovcharov, in spite of last year's tripartite memorandum of understanding which calls for an equal three-way split. Regardless of the ultimate division of ownership, each side will be expected to pay for its own portion of building and operating costs. All this should be resolved in Athens by mid-March, Ovcharov hoped, when the parties expect to give the go-ahead to the project.

COMMENT

¶8. (C) Ovcharov characterized the Russian approach as more economic -- related to energy interests -- than as an attempt to exert political pressure on Bulgaria. The tone of Ovcharov's discussion with Gazprom were much less confrontational this time, but Russia's leverage over Bulgaria (which pays about 35 percent under market price per gas unit) is unchanged. Ovcharov agreed with Amb. Beyrle that by tying its future even more tightly to Russian oil, gas and nuclear fuel, Bulgaria would become further dependent on one source for its energy needs, but he said the Bulgarians saw very few near term alternatives: "give me a better option and I'll take it," Ovcharov said ruefully. Clearly, though, Russia sees Bulgaria as a reliable partner and is comfortable with greater dependence on Bulgaria for getting its energy to Western markets. Russia, it is presumed, does not want to put all its eggs in the Turkish transit basket, already heavy with the Bosphorous straits, Blue Stream, Samsun-Ceyan, and other projects. For that reason, Bulgaria might enjoy a bit of leverage over Russia -- in the longer run. In the near term, Bulgaria's economic interest in maintaining the gas subsidies from Russia will give Moscow a strong bargaining hand in discussions over the B-A pipeline and especially the Belene project -- which Ovcharov all but declared in the win category for Russia.

END COMMENT

Beyrle